

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Iosco Transit Corporation	County Iosco
Fiscal Year End 9/30/06	Opinion Date 11/8/06	Date Audit Report Submitted to State 2/17/07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) James M. Anderson, P.C.		Telephone Number 989-563-2450		
Street Address P.O. Box 255		City Roscommon	State MI	Zip 48653
Authorizing CPA Sign: 	<small>Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, CPA, o=US, ou=James M. Anderson, P.C., email=jma@m33access.com Date: 2007.02.17 13:22:16 -05'00'</small>	Printed Name James M. Anderson, CPA		License Number 1101017419

**IOSCO TRANSIT CORPORATION  
AUDIT REPORT  
YEAR ENDED SEPTEMBER 30, 2006**

# IOSCO TRANSIT CORPORATION

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## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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### INDEPENDENT AUDITOR'S REPORT

November 8, 2006

Board of Directors  
Iosco Transit Corporation  
1036 N. Aulerich Road  
East Tawas, MI 48730

I have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Iosco Transit Corporation as of and for the year ended September 30, 2006, as listed in the table of contents. These statements are the responsibility of the Transit's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Iosco Transit Corporation, as of September 30, 2006, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 8, 2006, on my consideration of the Iosco Transit Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of my audit.

MEMBER MACPA and AICPA

Page 2  
Board of Directors  
Iosco Transit Corporation  
November 8, 2006

The management's discussion and analysis on pages 3-6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iosco Transit Corporation basic financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

A handwritten signature in cursive script, appearing to read "James M. Anderson, P.C.", written in dark ink.

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

IOSCO TRANSIT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2006

***Using this Annual Report***

Our discussion and analysis of the Iosco Transit Corporation's financial performance provides an overview of the Transit's financial activities for the fiscal year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Transit and present a longer-term view of the Transit's finances.

***Overview of the Financial Statements***

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Transit:

- . The first two statements are financial statements that provide both long-term and short-term information about the Transit's overall financial status. These statements report information about the Transit, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Transit's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Transit's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Transit's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Transit as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

***Reporting the Bus System as a Whole***

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and changes in Net Assets report information about the Transit, as a whole, and about its activities in a way that helps answer the question of whether the transit, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transit's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

IOSCO TRANSIT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2006

The two statements, mentioned above, report the Transit's net assets and how they have changed. The reader can think of the Transit's net assets (the difference between assets and liabilities) as one way to measure the Transit's financial health or financial position. Over time, increases or decreases in the Transit's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Transit you need to consider additional non-financial factors such as changes in the County's property tax base, the condition of the Transit's busses, and changes in the laws related to the operating assistance received from the Federal and State government.

***Financial Analysis of the Bus System as Whole***

The Transit's net assets decreased approximately 9%, or \$17,784, from \$198,368 to \$180,584 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Net Assets

The financial position of the Transit is relatively the same as the prior year. Although the net assets decreased by \$17,784, the unrestricted portion increased by \$28,934 from (\$23,329) to \$5,605. The overall decrease in the net assets can be attributed primarily to the lesser amount of capital grants received during 2006 of \$14,250 compared to \$87,557 received in 2005.

The net assets as of the year ended September 30, 2006, are as follows:

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 35,268	\$ 65,916	\$ 30,648	86.90
Capital Assets	<u>221,697</u>	<u>174,979</u>	<u>(46,718)</u>	<u>(21.07)</u>
Total Assets	<u>256,965</u>	<u>240,895</u>	<u>(16,070)</u>	<u>(6.25)</u>
Current Liabilities	58,597	60,311	1,714	2.92
Noncurrent Liabilities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>58,597</u>	<u>60,311</u>	<u>1,714</u>	<u>2.92</u>
Net Assets				
Contributed equity	83,697	61,780	(21,917)	(26.19)
Invested in Capital Assets	138,000	113,199	(24,801)	(17.97)
Unrestricted	<u>(23,329)</u>	<u>5,605</u>	<u>28,934</u>	<u>124.03</u>
Total Net Assets	<u>\$ 198,368</u>	<u>\$ 180,584</u>	<u>\$ (17,784)</u>	<u>(8.97)</u>

IOSCO TRANSIT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2006

Changes in Net Assets

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charges for Services	\$ 52,177	\$ 65,737	\$ 13,560	25.99
Nonoperating Revenue				
Taxes Levied for Transit	88,889	92,486	3,597	4.05
State of Michigan Operating Grants	123,007	126,280	3,273	2.66
Federal Operating Grants	37,237	47,531	10,294	27.64
County Grants	4,683	19,215	14,532	310.31
Capital Grants	87,557	14,250	(73,307)	(83.72)
Interest	137	345	208	151.82
Gain on Sale of Fixed Assets	<u>-0-</u>	<u>9,038</u>	<u>9,038</u>	<u>100.00</u>
Total Revenue	<u>393,687</u>	<u>374,882</u>	<u>(18,805)</u>	<u>(4.77)</u>
Operating Expense				
Salaries and Wages	189,194	192,863	3,669	1.94
Fringe Benefits	33,023	31,583	(1,440)	(4.36)
Depreciation	65,400	60,828	(4,572)	(6.99)
Other	<u>96,851</u>	<u>107,392</u>	<u>10,541</u>	<u>10.88</u>
Total Operating Expense	<u>384,468</u>	<u>392,666</u>	<u>8,198</u>	<u>2.13</u>
Income (Loss)	9,219	(17,784)	(27,003)	(292.91)
Beginning Net Assets	<u>189,149</u>	<u>198,368</u>	<u>9,219</u>	<u>4.87</u>
Ending Net Assets	<u>\$ 198,368</u>	<u>\$ 180,584</u>	<u>\$ (17,784)</u>	<u>(8.96)</u>



IOSCO TRANSIT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2006

***Capital Asset and Debt Administration***

At September 30, 2006, the Transit had \$174,979 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$46,718 or (21.08%) as follows:

	<u>2005</u>	<u>2006</u>	<u>Total Percentage Change 2005-2006</u>
Capital Assets Not Being Depreciated			
Land	\$ -0-	\$ -0-	0.00
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>0.00</u>
Capital Assets Being Depreciated			
Building	455,459	470,209	3.24
Vehicles	659,172	490,851	(25.54)
Equipment	<u>121,098</u>	<u>97,973</u>	<u>(19.10)</u>
Subtotal	<u>1,235,729</u>	<u>1,059,033</u>	<u>(14.30)</u>
Total Capital Assets	<u>1,235,729</u>	<u>1,059,033</u>	<u>(14.30)</u>
Total Accumulated Depreciation	<u>1,014,032</u>	<u>884,054</u>	<u>(12.82)</u>
Total Net Capital Assets	<u>\$ 221,697</u>	<u>\$ 174,979</u>	<u>(21.08)</u>

Please refer to the notes of the financial statements for more detailed information.

***Economic Factors and Next Year's Budget***

Iosco Transit Corporation showed an increase in operating revenues of \$13,560 as well as an increase in millage revenue of \$3,597 and the sale of capital items of \$9,038 in 2005/06. Due to these increases we were able to make it through the year and eliminate some of our line of credit debt to Huron Community Bank.

Though ITC does not expect an increase in sale of capital items for the 2006/07 fiscal year, we do hope to greatly reduce or eliminate the Credit line from Huron Community Bank during this year. We plan to continue the service the same as the service we had for 2006 fiscal year. During 2006 we eliminated two trips from Oscoda to Tawas on a daily basis during the summer months which saved close to \$12,000 for that year. Our millage has passed again for another five years, so we also expect another increase in millage revenue of approximately \$8,800. These increases should bring us out in good shape for the fiscal year 2008.

Darlene Eno  
General Manager

IOSCO TRANSIT CORPORATION  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

ASSETS

Current Assets:

Cash and investments	\$ 31,762
Accounts receivable	2,526
Grants receivable	<u>31,628</u>

Total Current Assets	65,916
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Property and equipment, less accumulated depreciation	<u>174,979</u>
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Total Assets	<u>240,895</u>
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LIABILITIES

Current Liabilities:

Accounts payable	5,802
Accrued payroll	12,171
Due to County	6,299
Line of credit	<u>36,039</u>

Total Current Liabilities	60,311
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NET ASSETS

Contributed equity	61,780
Invested capital assets, net of related debt	113,199
Undesignated	<u>5,605</u>

Total Net Assets	<u>\$ 180,584</u>
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The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2006

Operating Revenues	
Charges for services	
Fare box and special fares	\$ 65,729
Vehicle maintenance	<u>8</u>
Total operating revenues	<u>65,737</u>
Operating Expenses	
Salaries and wages	192,863
Fringe benefits	31,583
Materials and supplies	63,147
Services	6,214
Utilities	8,914
Casualty and liability insurance	15,450
Miscellaneous	13,667
Depreciation	<u>60,828</u>
Total operating expenses	<u>392,666</u>
Operating income (loss)	<u>(326,929)</u>
Non-operating Revenues (expenses)	
Property taxes	92,486
Federal operating assistance	47,531
State operating assistance	126,280
State and Federal capital grants	14,250
County	19,215
Interest/investment income	345
Gain on disposal of Assets	<u>9,038</u>
Total non-operating revenues	<u>309,145</u>
Change in Net Assets	(17,784)
Net Assets - October 1, 2005	<u>198,368</u>
Net Assets - September 30, 2006	<u><u>\$ 180,584</u></u>

The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION  
STATEMENT OF CASH FLOWS  
FOR YEAR ENDED SEPTEMBER 30, 2006

Cash flows from operating activities	
Cash receipts from operations	\$ 64,956
Cash payments for supplies and services	(107,451)
Cash payments for employee services and fringes	<u>(223,961)</u>
Net cash provided (used) by operating activities	<u>(266,456)</u>
Cash flows from noncapital financing activities	
Property taxes	92,486
Federal operating grants	47,531
State operating grants	115,133
County operating grants	<u>19,215</u>
Net cash provided (used) by noncapital financing activities	<u>274,365</u>
Cash flows from capital and related financing activities	
Federal/State capital grants	14,250
Purchase of fixed assets	(14,750)
Sale of Fixed Assets	9,692
Net increase in line of credit	<u>7,746</u>
Net cash provided (used) by capital and related financing activities	<u>16,938</u>
Cash flows from investing activities	
Investment income	<u>345</u>
Net cash provided (used) by financing activities	<u>345</u>
Net increase (decrease) in cash and cash equivalents	25,192
Cash and Cash Equivalents - October 1, 2005	<u>6,570</u>
Cash and Cash Equivalents - September 30, 2006	<u><u>\$ 31,762</u></u>

The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION  
STATEMENT OF CASH FLOWS  
FOR YEAR ENDED SEPTEMBER 30, 2006

Reconciliation of operating income to net  
cash provided by operating activities:

Operating income (loss) \$ (326,929)

Adjustments to reconcile operating income to net  
cash provided by operating activities:

Depreciation	60,828
Decrease (increase) in accounts receivable	(781)
Increase (decrease) in accounts payable	(59)
Increase (decrease) in accrued liabilities	<u>485</u>

Total adjustments	<u>60,473</u>
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Net cash provided (used) by operating activities	<u><u>\$ (266,456)</u></u>
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The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Iosco Transit Corporation is a nonprofit corporation under contract with the County of Iosco to provide public transportation to the residents of Iosco County. Its function is to carry out the terms of the public transportation service contract between the Michigan Department of Transportation and the Board of County Commissioners of the County of Iosco.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iosco Transit Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Financial Reporting Entity - The Public Transit is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this state requirement.

In accordance with accounting principles generally accepted in the United States of America and Government Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Iosco Transit Corporation. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method.

Inventory - Inventories are recorded as expenditures in the year of purchase. The amounts on hand at September 30, 2006 was determined to be immaterial and have therefore not been recorded on the books.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

IOSCO TRANSIT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Capital - Prior to October 1, 2001, proceeds received from the State and the U.S. Department of Transportation, in accordance with contracts to purchase fixed assets were credited to Contributed Capital and were not recorded as revenue. Depreciation of fixed assets purchased with these funds is charged against Contributed Capital.

Property Taxes - Property taxes are levied as of December 1 of each year and are due by the last day of the following February. The taxes are collected by the local units of government within the County and are periodically remitted to the Transit through the County during the collection period. The taxes are recognized as revenue in the year in which payment is due.

NOTE C - VACATION AND SICK LEAVE

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation time does not accumulate from year to year except by mutual agreement between the Transit and the employees.

Sick leave is granted without pay upon application from the employee for illness or injury subject to the employer's right to request medical proof of disability.

The current portion of compensated absences benefits are recorded as expenditures.

NOTE D - CASH AND INVESTMENTS

The balance sheet at September 30, 2006 contained \$31,762 which was on deposit within various bank accounts. At year-end, the bank balance of these deposits was \$32,559. These deposits were 100% insured according to FDIC regulations.

Deposits are categorized into these three categories of credit risk.

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 31,762	\$ 32,559

IOSCO TRANSIT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2006

NOTE D - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

The Transit Corporation has not adopted a policy that indicates how the Transit will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Transit Corporation has not adopted a policy that indicates how the Transit will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Transit's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.



IOSCO TRANSIT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2006

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>Balance 10/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 9/30/06</u>
Building and Improvements	\$ 455,459	\$ 14,750	\$ -0-	\$ 470,209
Vehicles	659,172	-0-	168,321	490,851
Shop Equipment	59,511	-0-	13,125	46,386
Office Equipment	<u>61,587</u>	<u>-0-</u>	<u>10,000</u>	<u>51,587</u>
Totals	<u>\$1,235,729</u>	<u>\$ 14,750</u>	<u>\$ 191,446</u>	\$1,059,033
Accumulated Depreciation	<u>\$1,044,032</u>	<u>\$ 60,828</u>	<u>\$ 190,806</u>	<u>884,054</u>
Net Property and Equipment				<u>\$ 174,979</u>

Depreciation expense for fiscal year ending September 30, 2006 was \$60,828.

Useful lives of depreciable assets are as follows:

Buses & rehabilitations	3-10 years
Operations equipment	5-10 years
Garage equipment	3-15 years
Office equipment	3-10 years
Computer equipment	3-7 years
Building	4-20 years

NOTE F - STATE GRANTS

The Transit has contracted with the State of Michigan for grant funds for operations and equipment. All of the monies that the Public Transit is now eligible to receive have not been disbursed to them as the projects have not been completed. As of September 30, 2006, \$4,232 is still available to the Transit under those grants.

NOTE G - RISK MANAGEMENT

The Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2006 the Transit carried commercial insurance to cover all risk of losses. The Worker's Compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Transit. The Transit has had no settled claims resulting from these risks that exceeded their commercial coverage in the past two fiscal years.

IOSCO TRANSIT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2006

NOTE H- CONTRIBUTED CAPITAL

The Contributed Capital equity account represents funds provided by the federal Government and State of Michigan, to the Transit, to purchase buildings, buses and equipment. Depreciation on buildings, buses and equipment purchased with State and Federal Funds is charged against this account. Depreciation of fixed assets purchased with Contributed Capital, for the same period was \$21,917.

Effective for fiscal years beginning after July 2000, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings. For the year ended September 30, 2006, \$14,250 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of September 30, 2001 have not been restated, and will continue to be amortized over the lives of the related fixed assets, until entirely depleted.

NOTE I - PROPERTY TAXES

During 2001 the voters of Iosco County approved a countywide property tax levy of up to .1 mill to provide for the continued operation of the Transit Corporation. Net property taxes collected for the year ended September 30, 2006 were \$92,486.

## **SUPPLEMENTAL INFORMATION**

IOSCO TRANSIT CORPORATION  
OPERATING REVENUES  
YEAR ENDED SEPTEMBER 30, 2006

**SCHEDULE 1**

Operating Revenues

Demand-response (farebox)	\$ 65,729
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Maintenance	<u>8</u>
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Total Operating Revenues	<u><u>\$ 65,737</u></u>
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IOSCO TRANSIT CORPORATION  
OPERATING EXPENSES  
YEAR ENDED SEPTEMBER 30, 2006

	<u>Operations</u>	<u>Maintenance</u>
Labor		
Operators' salaries and wages	\$ 95,329	\$ 27,455
Dispatchers' salaries and wages	31,140	-0-
Fringe Benefits	18,377	3,791
Services	528	-0-
Materials and Supplies Consumed		
Fuel and lubricants	43,077	-0-
Tires and tubes	-0-	5,122
Other materials and supplies	-0-	13,130
Utilities	-0-	-0-
Casualty and Liability Costs	12,757	-0-
Miscellaneous Expenses		
Travel and meetings	-0-	-0-
Advertising	-0-	-0-
Lease/Rental	3,642	-0-
Other miscellaneous expenses	-0-	-0-
Depreciation & Amortization	<u>56,166</u>	<u>879</u>
Total Expenses	<u>\$ 261,016</u>	<u>\$ 50,377</u>

## SCHEDULE 2

<u>General Administration</u>	<u>Total System</u>
\$ 38,939	\$ 161,723
-0-	31,140
9,415	31,583
5,686	6,214
-0-	43,077
-0-	5,122
1,818	14,948
8,914	8,914
2,693	15,450
1,206	1,206
2,143	2,143
-0-	3,642
6,676	6,676
<u>3,783</u>	<u>60,828</u>
<u>\$ 81,273</u>	<u>\$ 392,666</u>

**SCHEDULE 3**

IOSCO TRANSIT CORPORATION  
NONOPERATING REVENUES  
YEAR ENDED SEPTEMBER 30, 2006

## Local Operating Grants

Millage	\$ 92,486
County Contributions	<u>19,215</u>

Subtotal Local Operating Grants	<u>111,701</u>
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## State of Michigan Operating Grants

Formula Operating Assistance (Act 51)	<u>126,280</u>
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Subtotal State of Michigan Operating grants	<u>126,280</u>
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## Federal Operating Grants

U.S. DOT Operating Grant - Section 5311	<u>47,531</u>
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Subtotal Federal Operating Grants	<u>47,531</u>
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## State Capital Grants

	<u>14,250</u>
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## Interest Income

	<u>345</u>
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## Gain on Disposal of Fixed Assets

	<u>9,038</u>
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Total Nonoperating Revenues	<u><u>\$ 309,145</u></u>
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**SCHEDULE 4**

IOSCO TRANSIT CORPORATION  
SCHEDULE OF CONTRIBUTED EQUITY  
YEAR ENDED SEPTEMBER 30, 2006

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Balance, October 1, 2005	\$ 75,452	\$ 8,245	\$ 83,697
Deduct			
Depreciation on assets purchased from contributed equity	<u>(20,062)</u>	<u>(1,855)</u>	<u>(21,917)</u>
Balance, September 30, 2006	<u>\$ 55,390</u>	<u>\$ 6,390</u>	<u>\$ 61,780</u>



**SCHEDULE 5**

IOSCO TRANSIT CORPORATION  
CAPITAL CONTRACTS  
YEAR ENDED SEPTEMBER 30, 2006

Grantor: Michigan Department of Transportation

	Grant Award <u>Carry Over</u>	<u>Earned</u>	Amount <u>Remaining</u>
#2002-0052-Z7	\$ 3,269	\$ 1,750	\$ 1,519
#2004-0453	509	-0-	509
#2002-0052/Z9	2,204	-0-	2,204
#2002-0052/Z11	<u>12,500</u>	<u>12,500</u>	<u>-0-</u>
	<u>\$ 18,482</u>	<u>\$ 14,250</u>	<u>\$ 4,232</u>

**SCHEDULE 6**

IOSCO TRANSIT CORPORATION  
EXPENSES BY CONTRACT AND GENERAL OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2006

	Section 5311	Total
Labor	\$ 192,863	\$ 192,863
Fringe benefits	31,583	31,583
Services	6,214	6,214
Materials and supplies	63,147	63,147
Utilities	8,914	8,914
Casualty and liability	15,450	15,450
Miscellaneous	13,667	13,667
Depreciation and Amortization	<u>60,828</u>	<u>60,828</u>
Total	392,666	392,666
Less		
Ineligible Expenses and Project Revenues	<u>63,741</u>	<u>63,741</u>
Total Eligible Expenses	<u><u>\$ 328,925</u></u>	<u><u>\$ 328,925</u></u>

# SCHEDULE 7

## IOSCO TRANSIT CORPORATION NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2006

	2002-0052/Z12 Federal <u>Section 5311</u>	State Operating <u>Assistance</u>
Expenses		
Labor	\$ 192,863	\$ 192,863
Fringe benefits	31,583	31,583
Services	6,214	6,214
Materials & supplies	63,147	63,147
Utilities	8,914	8,914
Casualty & liability	15,450	15,450
Miscellaneous	13,667	13,667
Depreciation	<u>60,828</u>	<u>60,828</u>
Total Expense	<u>392,666</u>	<u>392,666</u>
Less Ineligible Expenses		
Depreciation	60,038	60,038
Services	8	8
Audit Fees	3,350	-0-
Interest	<u>345</u>	<u>345</u>
Total Ineligible Expense and Project Revenue	<u>63,741</u>	<u>60,391</u>
Net Eligible Expenses	<u>\$ 328,925</u>	<u>\$ 332,275</u>
Maximum Section 5311 Reimbursement (17.0%) not to exceed \$47,531	<u>\$ 47,531</u>	
State Operating Assistance		<u>\$ 130,433</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to non-urbanized areas. The State Operating Assistance is computed at 39.2545% of the current eligible expenses for the year ended September 30, 2006.

IOSCO TRANSIT CORPORATION  
DETAIL OF INELIGIBLE EXPENSES AND REVENUES  
SEPTEMBER 30, 2006

Depreciation

Depreciation accrued by public operators is ineligible according to UMTA C 9050, 1A, Page V-4.

Services

The Transit Corporation provides maintenance services in Iosco County. 100% of the revenue from these services was considered ineligible.

Annual Audit Fees

Any Transit Agency that expends less than \$500,000 in federal funds must subtract out the cost of the annual audit as an ineligible expense under Section 5311. Therefore, \$3,350 has been treated as an ineligible expense for Section 5311 purposes.

Interest Expense

Interest expense on short-term debt is ineligible to the extent of interest earned. Therefore, \$345 has been treated as ineligible.



## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

November 8, 2006

Board of Directors  
Iosco Transit Corporation  
1036 N. Aulerich Road  
East Tawas, MI 48730

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the twelve months ended September 30, 2006, follows. This supplemental information was not audited by me and accordingly, I do not express an opinion on it. However, I have reviewed the compilation methods for mileage and passenger data and found them reliable.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "J M Anderson", written in a cursive style.

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

MEMBER MACPA and AICPA

IOSCO TRANSIT CORPORATION  
MILEAGE DATA, VEHICLE HOURS AND PASSENGERS (UNAUDITED)  
YEAR ENDED SEPTEMBER 30, 2006

	<u>Public Transportation Mileage</u>	<u>Vehicle Hours</u>
DEMAND RESPONSE		
1st Quarter	42,554	2,090
2nd Quarter	41,170	2,119
3rd Quarter	42,235	2,147
4th Quarter	<u>33,638</u>	<u>1,950</u>
TOTAL OPERATIONS	<u><u>159,597</u></u>	<u><u>8,306</u></u>

See Auditor's Disclaimer on Preceding Page.

**SCHEDULES 9 AND 10**

<u>Regular Passengers</u>	<u>Senior Passengers</u>	<u>Handicapper Passengers</u>	<u>Senior Handicapper Passengers</u>
4,056	924	1,891	459
4,191	843	1,751	499
3,876	873	1,795	504
<u>2,766</u>	<u>775</u>	<u>1,627</u>	<u>540</u>
<u><u>14,889</u></u>	<u><u>3,415</u></u>	<u><u>7,064</u></u>	<u><u>2,002</u></u>



**James M. Anderson, P.C.**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 8, 2006

Iosco Transit Corporation  
1036 N. Aulerich Road  
East Tawas, MI 48730

Dear Board:

I have audited the financial statements of the business-type activity and major fund which collectively comprise the basic financial statements of the Iosco Transit Corporation for the year ended September 30, 2006, and have issued my report thereon dated November 8, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Iosco Transit Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

MEMBER MACPA and AICPA




Page 2  
Board of Directors  
Iosco Transit Corporation  
November 8, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iosco Transit Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the audit committee, management, and Board of Directors, and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "J M Anderson".

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT